LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7226 **NOTE PREPARED:** Jan 23, 2004
BILL NUMBER: HB 1388 **BILL AMENDED:**

SUBJECT: Deferral of property tax payments.

FIRST AUTHOR: Rep. Espich **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: This bill allows a taxpayer (who must be a senior citizen or the surviving spouse of a senior citizen) to defer payment of a portion of the property taxes on the taxpayer's homestead if certain criteria are met. The bill allows deferral of payment of the portion of the property taxes which exceeds a certain base amount.

Effective Date: Upon passage.

Explanation of State Expenditures: For real estate property taxes due in CY 2005 and after, this bill allows a taxpayer over 65 years of age, or the surviving spouse of the taxpayer, to defer payment of a portion of the real property taxes until the property ceases to be the taxpayer's principal place of residence, the taxpayer or the taxpayer's estate ceases to have a 20% equity interest, after the taxpayer's death, or after the taxpayer or other owner fails to comply with the requirements of a prior security interest in the property.

The amount of real property taxes that can be deferred are the part of the applicable property taxes on a homestead otherwise due and payable in a year where the taxes exceed the base taxable amount. Taxpayers would still have to make payments each year equal to the base amount plus any special assessments.

Taxpayers who are 65 or older before January 1, 2004, and owned a homestead on March 1, 2001, would compute their base amount for 2004 pay 2005 property taxes by the following formula:

2005 Base amount = (Applicable taxes paid in CY 2002)* 1.30 * (AVGQ 04) * (AVGQ 05)

where "AVGQ 04" is the assessed value growth quotient for CY 2004, etc. If improvements were made to the property then the assessed value of those improvements is added to the base amount in the assessment year.

Taxpayers who are 65 or older in CY 2004, who purchased their homestead after March 1, 2001, compute the base amount in a similar way starting with applicable taxes paid after the first assessment of the property. For example, if a taxpayer purchased a homestead after March 1, 2001, but before March 1, 2002, the base amount for Pay 2005 would be

2005 Base amount = (Applicable taxes paid in CY 2003)* 1.30 * (AVGQ 04) * (AVGQ 05)

with assessments for improvements being added to the base amount in the assessment year.

Since the base amount increases at about 5% per year (the current value of the assessed value growth quotient is about 4.7%) the deferral will have its greatest impact on taxpayers aged 65 or older in CY 2004 and owning their homesteads in CY 2001 whose taxes on their homesteads increased after reassessment by more than 30%. Taxpayers who turn 65 in CY 2005 and who owned their homesteads in CY 2001 would be eligible for the same deferrals in CY 2006 and later.

This bill requires the Indiana Department of State Revenue (DOR) to transfer funds from the General Fund to county treasurers in an amount equal to the total deferred property taxes under this bill. Payments of deferred property taxes would be transferred by the county treasurer to the Auditor of State for deposit in the General Fund. The most likely reason for the payment of deferred taxes under this bill would be the death of the taxpayer, since the deferral reduces the likelihood of the taxpayer selling the property or moving to another property of equal value (since the deferral would be lost and the deferred taxes would come due). The average death rate for persons over 65 in the United States is 5.21% (about 5 out of every 100 people over age 65 die each year). Given that the homestead will often be the major element of an estate it is assumed that deferred taxes are paid the year after the death of the taxpayer.

The cost to the State General Fund is estimated to be $52.2 M in CY 2005; $46.7 M in CY 2006; and $41.5 M in CY 2007. **On a fiscal year basis this is estimated to be $17.4M in FY 2005, $50.4 M in FY 2006, and $45.0 M in CY 2007.**

Estimation Issues: Tax and tax deferral estimates are based on tax bill information from 11 counties for which 2002 pay 2003 data are currently available.

The estimate that a taxpayer's property taxes must have increased by at least 30% in CY 2003 over CY 2002 to receive a deferral is a consequence of the assumption that the assessed value growth quotient will remain at 4.7% and that residential real property taxes will increase by 7.8% in CY 2004 and 1.8% in CY 2005 - CY 2007.

The cost to the State General Fund was estimated in three steps. The first step was to estimate the amount of taxes eligible taxpayers would be able to defer in CY 2005; the next step was to estimate the amount of deferred taxes repaid in CY 2006 by taxpayers receiving deferrals in CY 2005; and, finally, the last step was to estimate the amount of deferred taxes from taxpayers newly eligible beginning in CY 2006 and each year after.

The amount of deferrals in CY 2005 for which taxpayers would be eligible was estimated using data from 11 counties for which 2002 pay 2003 tax data are currently available. Estimates of 2004 pay 2005 (CY 2005) property taxes on homesteads were computed for each parcel in the 11 counties by assuming a 7.8% increase in CY 2004 and a 1.8% increase in CY 2005. Totals were computed for those 11 counties for CY 2005 for total property tax on homesteads, the total base amount, and the total amount of real property taxes eligible for deferral. These county totals were multiplied by 23.5%, the Census 2000 estimate for the percent of owner-occupied housing occupied by householders 65 years or older, to yield an estimate for those 11 counties of the real property tax, base amount, and tax deferral available eligible taxpayers in CY 2005. The county estimates were then inflated to state estimates by multiplying the county estimates by 3.86 (which is the ratio of the CY 2003 estimated state residential real property assessed value to the actual CY 2003 total for the 11 counties). This produced estimates of CY 2005 state values for the amount of property tax due from eligible taxpayers, the total base amount for those taxpayers, and the total amount of tax deferrals available to eligible taxpayers.

The 11 counties used were Adams, Bartholomew, Blackford, Fayette, Howard, Jennings, Johnson, Marion, Tipton, Vanderburgh, and Wells. These 11 counties contain approximately 379,000 owner-occupied units of which approximately 360,000 are homesteads. The estimated deferrable amount of real property taxes on homesteads for eligible taxpayers in those 11 counties for 2004 pay 2005 is estimated at $13.9 M (total real property taxes is estimated to be $44.5 M and the base amount for those parcels is estimated to be $34.0 M).

The amount of taxes that taxpayers who took the deferral in CY 2005 are expected to repay in CY 2006 and CY 2007 are computed in the following manner. Based on Census estimates it is estimated that 5.2% of taxpayers over 65 will die per year. This means that in CY 2006 94.8% of taxpayers who deferred taxes in CY 2005 will be eligible to defer taxes in CY 2006, and in CY 2007 89.9% (1-.052)*(1-.052) = .899) will be eligible to defer taxes. The deferred taxes of the 5.2% who are no longer eligible in 2005 (the assessment year for taxes due and payable in CY 2006), are repaid in CY 2006; the deferred taxes of the 4.9% who are no longer eligible in 2006 are assumed to be repaid in CY 2007. The estimate for the amount of repaid deferred taxes is $2.72 M in CY 2006 and $5.01 M in CY 2007.

The final step was to make an estimate of the deferrals (and repayments) for taxpayers who owned a homestead in CY 2001 and turned 65 in CY 2005 and become eligible for the deferral in CY 2006, and those who turned 65 in CY 2006 and become eligible in CY 2007, etc. Almost all of the deferrals will come from taxpayers who saw a large increase in real property taxes on their homesteads in CY 2003. The number of such new deferrals and the total amount of deferrals for which these taxpayers become eligible cannot be directly computed; it is assumed that the total amount of new deferrals in CY 2006 will equal the amount of repayments in CY 2006, and the same in CY 2007.

This note assumes that any taxpayer eligible for the deferral will take advantage of the deferral, and that the total cost to the State General Fund in any calendar year is therefore the total amount of taxes that can be deferred under this bill less payments of previously deferred taxes.

Explanation of State Revenues:

Explanation of Local Expenditures: County auditors and treasurers will incur some administrative costs when implementing and administering the Senior Citizen Property Tax Deferral Program, but those costs cannot be currently estimated.

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Department of Local Government Finance

Local Agencies Affected: County auditors and treasurers

Information Sources: OFMA Property Tax Database; Local Government Database

Fiscal Analyst: Michael Squires, 317-233-9456.